

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Charles Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Elliott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Elliott County, Kentucky, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof for the year then ended in conformity with the basis of accounting described in Note 1.

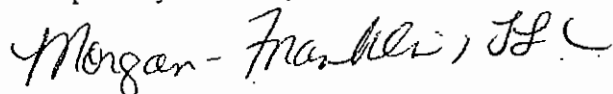
To the People of Kentucky
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The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison information is not a required part of, the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Elliott County, Kentucky's basic financial statements. The accompanying supplemental information and combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2006 on our consideration of Elliott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Morgan-Franklin, LLC", with a stylized flourish at the end.

Morgan-Franklin, LLC

Audit fieldwork completed –
November 15, 2006

ELLIOTT COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2006

Fiscal Court Members:

Charles Pennington	County Judge/Executive
Wilma Littleton	Magistrate
Brian Dillion	Magistrate
Walter Eldridge	Magistrate
Curt Adkins	Magistrate
Billy Wilson	Magistrate
Kermit Vanhoose	Magistrate
Gary Porter	Magistrate

Other Elected Officials:

John Lewis	County Attorney
Charlie Howard	Jailer
Reeda Ison	County Clerk
Delmaine Dickerson	Circuit Court Clerk
Ronnie Stephens	Sheriff
Lovell Mayse	Property Valuation Admin.
Carl Eldridge	Coroner

Appointed Personnel:

Claudette Sturgill	County Treasurer
Fonda Weddington	Finance Officer
Emogene Pennington	Deputy Judge/Executive

**ELLIOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2006

ELLIOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 286,549	\$ 162,333	\$ 448,882
Noncurrent Assets			
Capital Assets - Net of Accumulated Depreciation:			
Land	218,000	30,000	248,000
Buildings	2,287,572	1,817,040	4,104,612
Equipment and Vehicles	328,750		328,750
Infrastructure Assets - Net of Depreciation	1,579,475		1,579,475
Total Noncurrent Assets	4,413,797	1,847,040	6,260,837
Total Assets	4,700,346	2,009,373	6,709,719
LIABILITIES			
Current Liabilities			
Due Within One Year			
Financing Obligations	60,000		60,000
Bonds		60,000	60,000
Total Current Liabilities	60,000	60,000	120,000
Noncurrent Liabilities			
Due in More Than One Year			
Financing Obligations	1,501,220		1,501,220
Bonds	945,000	1,690,000	2,635,000
Total Noncurrent Liabilities	2,446,220	1,690,000	4,136,220
Total Liabilities	2,506,220	1,750,000	4,256,220
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,907,577	97,040	2,004,617
Restricted for Debt Service		162,333	162,333
Unrestricted	286,549		286,549
Total Net Assets	\$ 2,194,126	\$ 259,373	\$ 2,453,499

The accompanying notes are an integral part the financial statements.

ELLIOTT COUNTY
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS

For The Year Ended June 30, 2006

ELLIOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

					Net (Expenses) Revenues and Changes in Net Assets		
Program Revenues Received					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capitol Grants and Contributions	Total Governmental Activities	Business- Type Activities	Totals
Primary Government:							
Governmental Activities:							
General Government	\$ 770,058	\$ 1,800	\$ 436,634	\$ 233,821	\$ (97,803)	\$	\$ (97,803)
Protection to Persons/Property	210,821	2,825	110,221		(97,775)		(97,775)
General Health and Sanitation	43,264				(43,264)		(43,264)
Recreation and Culture	262,306				(262,306)		(262,306)
Roads	843,909		1,229,917		386,008		386,008
Road Facilities	5,382				(5,382)		(5,382)
Debt Service	151,307				(151,307)		(151,307)
Total Governmental Activities	2,287,047	4,625	1,776,772	233,821	(271,829)		(271,829)
Business-Type Activities:							
Public Properties Corp.	131,945	148,130				16,185	16,185
Total Primary Government	\$ 2,418,992	\$ 152,755	\$ 1,776,772	\$ 233,821	(271,829)	16,185	(255,644)

General Revenues:

Taxes			
Real Property Taxes	122,598		122,598
Personal Property Taxes	3,257		3,257
Motor Vehicle Taxes	48,638		48,638
Delinquent Real Property Tax	3,798		3,798
Deed Transfer Tax	7,298		7,298
Bank Franchise Tax	8,737		8,737
Unmined Mineral Tax	27		27
911 Fees	36,253		36,253
Franchise Taxes	31,284		31,284
Timberland Tax	2,327		2,327
Omitted Property Tax Bill	417		417
In Lieu Tax Payments	10,668		10,668
Excess Fees	14,323		14,323
Licenses and Permits	2,077		2,077
Miscellaneous Revenues	70,925		70,925
Interest Earned	3,775	9,935	13,710
Total General Revenues	366,402	9,935	376,337
Change in Net Assets	94,573	26,120	120,693
Net Assets - Beginning	2,099,553	233,253	2,332,806
Net Assets - Ending	\$ 2,194,126	\$ 259,373	\$ 2,453,499

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2006

ELLIOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006

	General Fund	Road And Bridge Fund	Library Construction Fund	Library Operating Fund	Road Improvement Series 2005 Bond Fund	Non Major Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 29,685	\$ 59,338	\$ 107,027	\$ 79,343	\$	\$ 11,156	\$ 286,549
TOTAL ASSETS	<u>29,685</u>	<u>59,338</u>	<u>107,027</u>	<u>79,343</u>	<u>0</u>	<u>11,156</u>	<u>286,549</u>
FUND BALANCES							
Unreserved:							
General	29,685						29,685
Capital Projects			107,027				107,027
Special Revenue		59,338		79,343		11,156	149,837
TOTAL FUND BALANCES	<u>\$ 29,685</u>	<u>\$ 59,338</u>	<u>\$ 107,027</u>	<u>\$ 79,343</u>	<u>\$ 0</u>	<u>\$ 11,156</u>	<u>\$ 286,549</u>
Reconciliation of the Balance Sheet-Governmental Funds to Statement of Net Assets							
Total Governmental Fund Balances							\$ 286,549
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:							
Capital Assets Used in Governmental Activities Of \$5,525,768 Net of Accumulated Depreciation of \$1,111,971 are Not Financial Resources and, Therefore, are Not Reported in the Funds.							4,413,797
Long-Term Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds. Due Within One Year - Financing Obligation Principal Due in More Than One Year - Financing Obligation and Bond Principal							(60,000) (2,446,220)
Net Assets of Governmental Activities							<u>\$ 2,194,126</u>

The accompanying notes are an integral part of the financial statements.

**ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

	General Fund	Road And Bridge Fund	Library Construction Fund	Library Operating Fund	Road Improvement Series 2005 Bond Fund	Non-Major Funds	Total Government Funds
REVENUES							
Taxes	\$ 225,549	\$	\$	\$	\$	\$ 38,667	\$ 264,216
Charges for Services						4,625	4,625
In Lieu Tax Payments	10,668						10,668
Excess Fees	14,323						14,323
Intergovernmental	118,046	1,089,616		125,000		592,241	1,924,903
Licenses and Permits	2,077						2,077
Miscellaneous	70,799	98				66,137	157,034
Interest	142	-239	189	136		3,067	3,775
Total Revenues	441,504	1,089,953	189	125,136		724,737	2,361,821
EXPENDITURES							
General Government	393,143	8,400			1,000,900	141,821	1,544,264
Protection to Persons/Property	67,392					177,640	245,032
General Health and Sanitation	22,789	20,465				43,284	43,284
Recreation and Culture	3,000			25,870		198,412	227,082
Roads		838,395				392,746	1,231,141
Road Facilities		5,362					5,362
Debt Service							
Principal	5,000	11,304		50,000		115,780	182,084
Interest	13,354	205		89,550		37,898	121,007
Equipment Lease	1,200				29,100		1,200
Other Fees							29,100
Administration	216,421	53,955		6,685		16,332	293,393
Total Expenditures	722,309	936,105		151,905	1,030,000	1,080,829	3,922,949
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	(280,705)	151,847	189	(26,767)	(1,030,000)	(355,892)	(1,541,328)
OTHER FINANCING SOURCES (USES)							
Financing Obligation Proceeds		47,000			1,030,000		47,000
Bond Proceeds							1,030,000
Transfers from Other Funds	199,399		106,838			51,429	357,666
Transfers to Other Funds	(36,429)	(199,399)		(106,838)		(15,000)	(357,666)
Total Other Financial Sources (Uses)	162,970	(152,399)	106,838	(106,838)	1,030,000	36,429	1,077,000
Net Change in Fund Balances	(117,735)	(552)	107,027	(133,605)		(319,463)	(464,328)
Fund Balances Beginning	147,420	59,600		212,946		330,619	750,877
Fund Balances Ending	\$ 29,685	\$ 59,338	\$ 107,027	\$ 79,343	\$ 0	\$ 11,156	\$ 286,549

The accompanying notes are an integral part of the financial statements.

**ELLIOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

ELLIOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities

Net Change in Fund Balances-Total Governmental Funds	\$ (464,328)
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense:

Capital Outlay	1,934,261
Depreciation Expense	(480,444)

The Issuance of Long-Term Debt Provides Current Financial Resources to Governmental Funds. These Transactions, However, Have no Effect on Net Assets.

Bond Proceeds	(1,030,000)
Financing Obligation Proceeds	(47,000)

Debt Principal Payments Are Expensed in the Governmental Funds, But the Payment Reduces Long-Term Liabilities in the Statement of Net Assets:

Financing and Bond Obligation Principal Payments	<u>182,084</u>
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Change in Net Assets of Governmental Activities	<u>\$ 94,573</u>
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The accompanying notes are an integral part of the financial statements.

**ELLIOTT COUNTY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
MODIFIED CASH BASIS**

June 30, 2006

ELLIOTT COUNTY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
MODIFIED CASH BASIS
June 30, 2006

	Business - Type Activities - Enterprise Fund
	Public Properties Corporation Fund
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 162,333
Total Current Assets	<u>162,333</u>
Noncurrent Assets	
Capital Assets	
Land	30,000
Buildings	2,010,000
Less Accumulated Depreciation	<u>(192,960)</u>
Total Noncurrent Assets	<u>1,847,040</u>
Total Assets	2,009,373
Liabilities	
Current Liabilities	
Bonds:	
Due Within One Year	60,000
Noncurrent Liabilities	
Bonds:	
Due in More Than One Year	<u>1,690,000</u>
Total Liabilities	<u>1,750,000</u>
Net Assets	
Invested in Capital Assets	
Net of Related Debt	97,040
Restricted for Debt Service	<u>162,333</u>
Total Net Assets	<u>\$ 259,373</u>

The accompanying notes are an integral part of the financial statements.

**ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
MODIFIED CASH BASIS
For The Year Ended June 30, 2006

	Business - Type Activities Enterprise Fund
	Public Properties Corporation Fund
Operating Revenues	
Lease Income	\$ 148,130
Total Operating Revenues	148,130
Operating Expenses	
Depreciation	(32,160)
Total Operating Expenses	(32,160)
Total Operating Income (Loss)	115,970
Nonoperating Revenues (Expenses)	
Interest Income	9,935
Interest Expense	(99,785)
Total Nonoperating Revenues (Expenses)	(89,850)
Change in Net Assets	26,120
Total Net Assets - Beginning	233,253
Total Net Assets - Ending	\$ 259,373

The accompanying notes are an integral part of the financial statements.

**ELLIOTT COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

ELLIOTT COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MODIFIED CASH BASIS
For The Year Ended June 30, 2006

	Business - Type Activities Enterprise Fund
	Public Properties Corporation Fund
Cash Flows From Operating Activities	
Lease Income	\$ 148,130
Net Cash Provided (Used) by Operating Activities	148,130
Cash Flows From Capital and Related Financing Activities	
Principal Paid on Capital Debt	(55,000)
Interest Paid on Capital Debt	(99,785)
Net Cash Provided (Used) by Capital and Related Financing	(154,785)
Cash Flows From Investing Activities	
Interest Earned	9,935
Net Cash Provided (Used) by Investing Activities	9,935
Net Increase (Decrease) in Cash and Cash Equivalents	3,280
Cash and Cash Equivalents-July 1, 2005	159,053
Cash and Cash Equivalents-June 30, 2006	\$ 162,333
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 115,970
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	32,160
Total Cash Provided (Used) by Operating Activities	\$ 148,130

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances). However, no encumbrances were reported.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Elliott County include the funds, agencies, boards and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

C. Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Elliott County Public Properties Corporation

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

D. Additional Elliott County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Elliott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Elliott County, Kentucky.

Circuit Court Clerk
County Attorney
Property Valuation Administrator
County Clerk
County Sheriff

E. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities; the difference between the two is being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation, and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function; 2) operating grants and contributions; and, 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current resources measurement focus and modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road And Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Library Construction Fund- The primary purpose of this fund is to account for the revenues and expenditures pertaining to the construction of the new Elliott County Public Library. The Governor's Office For Local Development does not require the Court to report or budget for these funds.

Library Operating Fund - The primary purpose of this fund is to account for grants and operating expenses paid on behalf of the Elliott County Public Library.

Road Improvement Series 2005 Bond Fund - The primary purpose of this fund is to account for debt service requirements of the road improvement series 2005 bond issue. The Governor's Office For Local Development does not require the Court to report or budget for these funds. This is a new account for the 2006 Fiscal Year.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, 911 Fund, Fire Protection Fund, County Development Fund, Agricultural and Natural Resource Fund, Homeland Security Fund, and Welcome Center Fund.

Special Revenue Funds

The Road and Bridge Fund, Jail Fund, Local Government Economic Development Fund, County Development Fund, Agricultural and Natural Resources Fund, Local Government Economic Assistance Fund, 911 Fund, Fire Protection Fund, Library Operating Fund, Homeland Security Fund, and Welcome Center Fund are presented as Special Revenue Funds. Special Revenue Funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Funds:

The Road Improvement Series 2005 Bond Fund and the Library Construction Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenue of the county's enterprise fund is rent income. Operating expenses for the enterprise fund include depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Elliott County Public Properties Corporation - The Elliott County Public Properties Corporation accounts for the activities of the Public Properties Corporation (PPC), a blended component unit of the county. The Public Properties Corporation issues debt to build major facilities or additions for use as a Courthouse. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky, in which AOC wishes to use and sublease all or a portion of certain facilities owned by the county.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

F. Property Tax Calendar

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30.

G. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

H. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy are reported in the applicable governmental activities of the government-wide financial statements. Such assets are recorded at acquisition or construction cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Category</u>	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	2-25

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

I. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period.

The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds received are reported as other financing sources.

J. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

K. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

K. Budgetary Information (Continued)

Formal Budgets are not adopted for the Library Construction Fund and the Road Improvement Series 2005 Bond Fund. The Governor's Office for Local Development does not require these funds to be budgeted.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is; (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and; (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of November 30, 2005 and June 30, 2006, the County's deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 3. Capital Assets

Capital Assets activity for the year ended June 30, 2006 was as follows:

Primary Government

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 168,000	\$ 50,000	\$	\$ 218,000
Total Capital Assets Not Being Depreciated:	<u>168,000</u>	<u>50,000</u>	<u></u>	<u>218,000</u>
Capital Assets, Being Depreciated:				
Buildings	2,387,434	110,000		2,497,434
Equipment and Vehicles	588,338	119,135		707,473
Infrastructure	447,735	1,655,126		2,102,861
Total Capital Assets Being Depreciated	<u>3,423,507</u>	<u>1,884,261</u>	<u></u>	<u>5,307,768</u>
Less Accumulated Depreciation For:				
Buildings	169,087	40,775		209,862
Equipment and Vehicles	335,005	43,718		378,723
Infrastructure	127,435	395,951		523,386
Total Accumulated Depreciation	<u>631,527</u>	<u>480,444</u>	<u></u>	<u>1,111,971</u>
Total Capital Assets, Being Depreciated, Net	<u>2,791,980</u>	<u>1,403,817</u>	<u></u>	<u>4,195,797</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,959,980</u>	<u>\$ 1,453,817</u>	<u>\$</u>	<u>\$ 4,413,797</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 30,000	\$	\$	\$ 30,000
Total Capital Assets Not Being Depreciated	<u>30,000</u>			
Capital Assets, Being Depreciated:				
Buildings	2,010,000			2,010,000
Total Capital Assets Being Depreciated	<u>2,010,000</u>			<u>2,010,000</u>
Less Accumulated Depreciation For:				
Buildings	160,800	32,160		192,960
Total Capital Assets, Being Depreciated, Net	<u>1,849,200</u>	<u>(32,160)</u>		<u>1,817,040</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,879,200</u>	<u>\$ (32,160)</u>	<u>\$</u>	<u>\$ 1,847,040</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities

General Government	\$ 5,093
Protection to Persons and Property	429,033
Recreation and Culture	35,224
Roads, Including Depreciation of General Infrastructure Assets	<u>11,094</u>
Total Depreciation Expense -- Governmental Activities	<u>\$ 480,444</u>

Business-Type Activities

Public Properties Corporation	<u>\$ 32,160</u>
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ELLIOT
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Business-Type Activities

A. On April 26, 2000, the Elliott County Public Properties Corporation, a component unit of the Elliott County Fiscal Court, issued \$2,010,000 in First Mortgage Revenue Bonds for the Courthouse Renovation. Semiannual principal and interest payments are required in September and March of each year beginning September 2001. The bonds will be paid in full March 1, 2023. As of June 30, 2006, the principal balance on these bonds was \$1,750,000. Debt service requirements for the remaining years are:

Fiscal Year Ended 30-June	Scheduled Interest	Scheduled Principal
2007	\$ 96,980	\$ 60,000
2008	93,920	60,000
2009	90,800	65,000
2010	87,420	70,000
2011	83,710	70,000
2012-2016	276,540	375,000
2017-2021	224,227	585,000
2022-2023	42,465	465,000
Totals	<u>\$ 996,062</u>	<u>\$1,750,000</u>

Governmental Activities

B. The County has entered into a lease agreement with Southeastern Equipment Company, Inc. for the purchase of a 2003 Case Model #580 SM Backhoe. The monthly payments for the Backhoe are \$2,250, 80% of which is applied to the purchase price of \$61,650. The County made twelve rental payments in the fiscal year ending June 30, 2006 for a total of \$11,509 being paid and \$11,304 being applied to principal. The principal balance of the agreement was \$0 as of June 30, 2006.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Long-Term Liabilities (Continued)

C. On December 20, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$1,510,000 for the construction of the Elliott County Library. The agreement requires semi-annual principal and interest payments to be paid in May and November. The principal balance of the agreement was \$1,315,000 as of June 30, 2006. Lease payments for the remaining years are:

Fiscal Year Ended 30-June	Scheduled Interest	Scheduled Principal
2007	\$ 65,440	\$ 55,000
2008	63,130	55,000
2009	60,600	60,000
2010	57,785	65,000
2011	54,795	65,000
2012-2016	220,485	390,000
2017-2021	103,815	505,000
2022	3,240	120,000
Totals	<u>\$ 629,290</u>	<u>\$ 1,315,000</u>

D. On September 27, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust to finance the completion of the renovation of the County's Courthouse facility in the amount of \$240,000. The agreement requires two semiannual interest payments to be made in March and September of each year. Principal payments are due in September of each year to be paid in full September 20, 2026. As of June 30, 2006, the principal balance remaining was \$220,000. Future lease principal and interest requirements for the remaining years are:

Fiscal Year Ended 30-June	Scheduled Interest	Scheduled Principal
2007	\$ 11,441	\$ 5,000
2008	11,420	5,000
2009	11,190	5,000
2010	10,960	5,000
2011	10,720	5,000
2012-2016	46,676	50,000
2017-2021	33,363	55,000
2022-2026	14,700	75,000
2027	420	15,000
Totals	<u>\$ 150,890</u>	<u>\$ 220,000</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Long-Term Liabilities (Continued)

E. On July 7, 2005, the Elliott County Fiscal Court issued \$1,030,000 in General Obligation Road Improvement Bonds for the blacktopping of new roads and resurfacing of old roads. Semi-annual interest payments are required to be made on January 1 and July 1 of each year. Annual principal payments are required by July 1 of each year. The bonds are to be paid in full July 1, 2015. As of June 30, 2006, the principal balance remaining was \$945,000. The July 1, 2006 payment was made during the 2006 fiscal year. Future principal and interest payments for the remaining years are:

Fiscal Year Ended 30-June	Scheduled Interest	Scheduled Principal
2008	\$ 32,445	\$ 90,000
2009	29,208	95,000
2010	25,882	95,000
2011	22,470	100,000
2012	19,052	100,000
2013-2015	35,431	465,000
Totals	<u>\$ 164,488</u>	<u>\$ 945,000</u>

F. On April 21, 2004, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development District in the amount of \$10,000. This lease agreement requires semi-annual interest payments for three years and one principal payment of \$10,000 in year 3. This lease was paid in full on June 22, 2006. The principal balance of the agreement was \$0 as of June 30, 2006.

G. On September 16, 2005 the Elliott County Fiscal Court executed a promissory note with Jeffrey Evans, Gloria Evans, Randy Deerfield, Kelly Deerfield, and Gage Evans in the amount of \$47,000. The note was for the remaining amount owed on the new County Road building and land. The note requires the principal and interest to be paid on October 16, 2007. On the date that the note was executed the Elliott County Fiscal Court paid \$20,780 on the principal of the note, therefore the principal balance on the note was \$26,220 as of June 30, 2006. Note payments for the remaining years are:

Fiscal Year Ended 30-June	Scheduled Interest	Scheduled Principal
2007	\$ 0	\$ 0
2008	6,045	26,220
Totals	<u>\$ 6,045</u>	<u>\$ 26,220</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

<u>Primary Government:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
Financing Obligations	\$ 1,611,304	\$ 47,000	\$ (97,084)	\$ 1,561,220	\$ 60,000
Bonds		<u>1,030,000</u>	<u>(85,000)</u>	<u>945,000</u>	<u>0</u>
Total	<u>\$ 1,611,304</u>	<u>\$ 1,077,000</u>	<u>\$ (182,084)</u>	<u>\$ 2,506,220</u>	<u>\$ 60,000</u>
<i>Business-Type Activities:</i>					
Bonds	<u>\$ 1,805,000</u>	<u>\$ 0</u>	<u>\$ (55,000)</u>	<u>\$ 1,750,000</u>	<u>\$ 60,000</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$83,758 in interest on financing obligations and \$36,211 on bonded indebtedness for the Governmental Activities. Interest paid by the Public Properties Corporation, a Business – Type Activity is \$99,785.

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 8. Insurance

For the fiscal year ended June 30, 2006, Elliott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Subsequent Events

A. On August 24, 2006, the Elliott County Fiscal Court approved the following payments concerning the Phase V Water System Improvement Project:

Woolpert \$10,176 for engineering.

Little Creek Construction \$145,649 for water lines and stored materials.

On September 13, 2006, the Elliott County Fiscal Court approved the following payments concerning the Phase V Water System Improvement Project:

Woolpert \$16,815 for engineering.

Little Creek Construction \$61,571 for water lines and stored materials.

B. On August 24, 2006, the Elliott County Fiscal Court approved to purchase two cruisers for the Elliott County Sheriff's Department in an amount not to exceed \$49,356.

C. On August 24, 2006, the Elliott County Fiscal Court approved to pay off in full the balance owed to the bank for a 2005 Ford Ambulance for the Elliott County Ambulance Service in an amount not to exceed \$18,880 from the coal severance grant program administered by GOLD.

D. On September 13, 2006, the Elliott County Fiscal Court approved the surplus auction sale that was held on August 26, 2006 by Manning Realty. The Elliott County Fiscal Court approved payment to Manning Realty for seven percent commission in the amount of \$1,529 and to sell the old county garage building and lot to the Elliott County Board of Education in the amount of \$17,500.

E. On September 13, 2006, the Elliott County Fiscal Court approved the Contract/Memorandum of Agreement between the Kentucky Department of Libraries and Archives, the Elliott County Public Library, and the Elliott County Fiscal Court. The County is to receive \$125,000 each year to make payment on the portion of the KADD lease funds (Note 4 - C) used for library construction. The Fiscal Court is responsible for repayment of the portion of the lease proceeds used for library operating expenses.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 10. Related Party Transactions

The County entered into the following related party transactions, which were approved by the fiscal court.

The county expended \$821 with Fannin Farm and Equipment. Fannin Farm and Equipment is owned by the County Judge/Executive Charles Pennington's brother-in-law.

See Accompanying Auditors' Report.

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ending June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 223,900	\$ 239,157	\$ 225,549	\$ (13,608)
In Lieu Tax Payments	10,100	10,612	10,668	56
Excess Fees		14,323	14,323	0
Intergovernmental	114,607	145,403	118,046	(27,357)
Licenses and Permits	1,500	2,317	2,077	(240)
Miscellaneous	15,500	71,799	70,799	(1,000)
Interest	689	689	142	(547)
Total Revenues	<u>366,296</u>	<u>484,300</u>	<u>441,604</u>	<u>(42,696)</u>
EXPENDITURES				
General Government	342,916	418,325	393,143	25,182
Protection to Persons and Property	39,051	70,693	67,392	3,301
General Health and Sanitation	17,249	24,214	22,799	1,415
Recreation and Culture	3,000	3,000	3,000	0
Debt Service	18,354	19,554	19,554	0
Administration	215,025	233,331	216,421	16,910
Total Expenditures	<u>635,595</u>	<u>769,117</u>	<u>722,309</u>	<u>46,808</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(269,299)	(284,817)	(280,705)	4,112
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	199,399	199,399	199,399	0
Transfers to Other Funds	<u>(62,000)</u>	<u>(62,000)</u>	<u>(36,429)</u>	<u>25,571</u>
Total Other Financing Sources (Uses)	<u>137,399</u>	<u>137,399</u>	<u>162,970</u>	<u>25,571</u>
Net Change in Fund Balances	(131,900)	(147,418)	(117,735)	29,683
Fund Balances, Beginning	<u>131,900</u>	<u>147,418</u>	<u>147,420</u>	<u>(2)</u>
Fund Balances, Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,685</u>	<u>\$ 29,681</u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2006 (Continued)

	ROAD AND BRIDGE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 542,224	\$ 1,089,575	\$ 1,089,616	\$ 41
Miscellaneous	1,500	1,540	98	(1,442)
Interest	400	400	239	(161)
Total Revenues	544,124	1,091,515	1,089,953	(1,562)
EXPENDITURES				
General Government	8,399	9,800	8,400	1,400
General Health and Sanitation	16,507	24,436	20,465	3,971
Roads	318,438	836,431	791,395	45,036
Road Facilities	7,056	5,382	5,382	0
Debt Service	11,250	11,509	11,509	0
Administration	53,075	64,451	53,955	10,496
Total Expenditures	414,725	952,009	891,106	60,903
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	129,399	139,506	198,847	59,341
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(199,399)	(199,399)	(199,399)	0
Total Other Financing Sources (Uses)	(199,399)	(199,399)	(199,399)	0
Net Changes in Fund Balance	(70,000)	(59,893)	(552)	59,341
Fund Balance - Beginning	70,000	59,893	59,890	(3)
Fund Balance - Ending	\$ 0	\$ 0	\$ 59,338	\$ 59,338

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information-Modified Cash Basis
For The Year Ended June 30,2006 (Continued)

LIBRARY OPERATING FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 125,000	\$ 125,000	\$ 125,000	\$ 0
Interest	400	400	138	(262)
Total Revenues	125,400	125,400	125,138	(262)
EXPENDITURES				
Recreation and Culture	26,297	30,272	25,670	4,602
Debt Service	119,950	119,950	119,550	400
Administration	189,153	188,126	6,685	181,441
Total Expenditures	335,400	338,348	151,905	186,443
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(210,000)	(212,948)	(26,767)	186,181
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds			(106,838)	(106,838)
Total Other Financing Sources (Uses)			(106,838)	(106,838)
Net Change in Fund Balance	(210,000)	(212,948)	(133,605)	79,343
Fund Balance, Beginning	210,000	212,948	212,948	0
Fund Balance, Ending	\$ 0	\$ 0	\$ 79,343	\$ 79,343

ELLIOTT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds. The Governor's Office for Local Development does not require the Library Construction Fund and the Road Improvement Series 2005 Bond Fund to be budgeted.

**Reconciliation of Required Supplementary Information to Statement of Revenues,
Expenditures, and Changes in Fund Balances**

Following is a summary of adjustments that convert the cash basis budgetary schedules to the modified cash basis of accounting used in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

<u>Road And Bridge Fund</u>	<u>Other Financing Sources (Uses)</u>	<u>Expenditures</u>
Budgetary Comparison Schedule	(\$199,399)	\$891,106
Financing Obligations Issued	47,000	
Roads	<u> </u>	<u>47,000</u>
Statement of Revenues Expenditures And Changes in Fund Balance	(\$152,399)	\$938,106

See Accompanying Auditors' Report.

ELLIOTT COUNTY
COMBINING BALANCE SHEET - NON-MAJOR FUNDS
MODIFIED CASH BASIS
June 30, 2006

	Local Government Economic Assistance Fund		Local Government Economic Development Fund		911 Fund		County Development Fund		Fire Protection Fund		Agricultural And Natural Resources Fund		Homeland Security Fund		Welcome Center Fund		Total Non-Major Governmental Funds	
	Jail Fund																	
ASSETS																		
Cash and Cash Equivalents	\$ 10,885	\$		\$	1	\$	121	\$	47	\$			\$		\$	102	\$	11,156
TOTAL ASSETS	10,885		0		1		121		47		0		0		102		11,156	
FUND BALANCES																		
Unreserved:																		
Special Revenue	10,885				1		121		47						102		11,156	
TOTAL FUND BALANCES	\$ 10,885	\$	0	\$	1	\$	121	\$	47	\$	0		\$	0	\$	102	\$	11,156

The accompanying notes are an integral part of the financial statements

ELLIOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
For the Year Ended June 30, 2006

	Jail Fund	Local Government Economic Assistance Fund	Local Government Economic Development Fund	911 Fund	Fire Protection Fund	County Development Fund	Agricultural And Natural Resources Fund	Homeland Security Fund	Welcome Center Fund	Total Non-Major Governmental Funds
REVENUES										
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Intergovernmental	83,224	181,028	147,584	36,253	2,414		175,000	45,305		38,687
Charges for Services	2,625									592,241
Miscellaneous						88,137			1,800	4,825
Interest	16	46		2	2	2,923	78			96,137
Total Revenues	66,065	181,074	147,584	36,255	2,416	89,060	175,078	45,305	1,800	724,737
EXPENDITURES										
General Government		8,892	128,304				198,412		8,225	141,821
Recreation and Culture										108,412
Roads		153,760			2,480	238,906		45,305		392,746
Protection to Persons/Property	95,643			34,224						177,640
Debt Service:										
Principals			20,780							115,780
Interest	4,014	6,169		5,857		95,000				37,890
Administration	99,057	186,616	147,684	39,081	2,468	371,084	198,412	45,305	495	16,332
Total Expenditures	(33,592)	(5,544)		(3,626)	(52)	(282,824)	(23,334)		(8,920)	(355,892)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	44,429	(15,000)							7,000	51,429
OTHER FINANCING SOURCES (USES)										
Transfers from Other Funds										(15,000)
Transfers to Other Funds										
Total Other Financing Sources (Uses)	44,429	(15,000)							7,000	36,429
Net Changes in Fund Balance	10,637	(20,544)		(3,626)	(52)	(282,824)	(23,334)		80	(318,463)
Fund Balance-Beginning	46	20,544		3,627	99	282,945	23,334		22	330,819
Fund Balance-Ending	\$ 10,885	\$ 0	\$ 0	\$ 1	\$ 47	\$ 121	\$ 0	\$ 0	\$ 102	\$ 11,156

The accompanying notes are an integral part of the financial statements.

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

Morgan-Franklin, LLC

Certified Public Accountants

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The Honorable Charles Ray Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 15, 2006. Elliott County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elliott County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Elliott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Kentucky Governor's Office For Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,


Morgan-Franklin, LLC

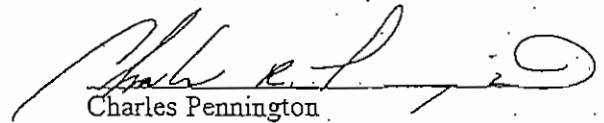
Audit fieldwork completed –
November 15, 2006

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND
DEVELOPMENT PROGRAMS

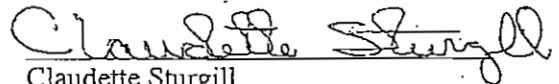
ELLIOTT COUNTY FISCAL COURT

For The Year Ended June 30, 2006

The Elliott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Charles Pennington
County Judge/Executive



Claudette Sturgill
County Treasurer